

CITY OF NORWALK

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2007

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CITY OF NORWALK

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	Before March 2007	
Scott Lorenzen	Mayor	Dec. 2009
Curt Lankford	Council Member	Dec. 2007
Jim McClamon	Mayor Pro Tem & Council Member	Dec. 2009
Pat Wahl	Council Member	Dec. 2009
Angela Baughman	Council Member	Dec. 2007
Dave Hixenbaugh	Council Member	Nov. 2007
Mark Miller	Administrator	Indefinite
Jennifer Sease	Clerk	Aug. 2007
James Dougherty	Attorney	Jan. 2008
	After March 2007	
N. Newton Standridge	Mayor	Nov. 2007
Curt Lankford	Council Member	Dec. 2007
Jim McClamon	Mayor Pro Tem & Council Member	Dec. 2009
Pat Wahl	Council Member	Dec. 2009
Angela Baughman	Council Member	Dec. 2007
Dave Hixenbaugh	Council Member	Nov. 2007
Mark Miller	Administrator	Indefinite
Jennifer Sease	Clerk	Aug. 2007
James Dougherty	Attorney	Jan. 2008

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Norwalk, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Norwalk's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles of the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Norwalk as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2007, on our consideration of the City of Norwalk's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Norwalk's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

August 31, 2007

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Norwalk, Iowa provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 16%, or approximately \$1,030,000 from fiscal 2006 to fiscal 2007. Property tax, utility tax replacement excise tax, and bond proceeds increased approximately \$448,000, 114,000, and 615,000, respectively. Operating grants, contributions and restricted interest decreased approximately \$92,000.

Disbursements of the City's governmental activities decreased 6%, or approximately \$404,000, in fiscal 2007 from fiscal 2006. Debt service disbursements increased approximately \$282,000. Capital projects, public safety and public works disbursements decreased approximately \$209,000, 219,000 and 260,000, respectively.

The City's total cash basis net assets decreased 10%, or approximately \$741,000, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased approximately \$683,000 and the assets of the business type activities increased by approximately \$58,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not have effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the generally accepted accounting principles of the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, and the storm water drainage system. These activities are financed primarily by user charges.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and storm water funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$4,973,234 to \$5,656,399. The analysis that follows focuses on the changes in cash balances for governmental activities.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2007	2006
Receipts and transfers		
Program receipts		
Charges for service	\$ 852,781	909,705
Operating grants, contributions and restricted interest	838,302	929,984
Capital grants, contributions and restricted interest	52,561	19,825
General receipts		
Property tax	3,276,216	2,827,939
Utility tax replacement excise tax	263,049	149,352
Grants and contributions not restricted to specific purposes	47,493	59,830
Unrestricted interest on investments	184,308	172,071
Bond proceeds	1,976,106	1,360,900
Other general receipts	11,395	17,281
Transfers, net	(4,024)	20,892
Total receipts and transfers	<u>7,498,187</u>	<u>6,467,779</u>
Disbursements		
Public safety	1,321,635	1,540,593
Public works	1,103,075	1,362,563
Health and social services	3,150	3,150
Culture and recreation	764,784	753,270
Community and economic development	131,511	162,687
General government	479,607	459,614
Debt service	1,394,554	1,112,312
Capital projects	<u>1,616,705</u>	<u>1,825,244</u>
Total disbursements	<u>6,815,021</u>	<u>7,219,433</u>
Increase in cash basis net assets	683,166	(751,654)
Cash basis net assets beginning of year	<u>4,973,233</u>	<u>5,724,887</u>
Cash basis net assets end of year	<u>\$ 5,656,399</u>	<u>4,973,233</u>

The City's total receipts for governmental activities increased by 16%, or \$1,030,408. The total cost of all programs and services decreased by \$404,412, or 6%, with no new programs added this year. The increase in receipts was primarily the result of increases in property tax, utility tax replacement excise tax and bond proceeds of \$448,277, 113,697, and 615,206. Receipts decreased for operating grants, contributions and restricted interest by \$91,682.

CITY OF NORWALK

MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)

The cost of all governmental activities this year was \$6,815,021 compared to \$7,219,433 last year. However, as shown in the Statement of Activities and Net Assets on pages 13-16, the amount taxpayers ultimately financed for these activities was only \$5,071,377 because some of the cost was paid by those directly benefited from the programs (\$852,781) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$890,863). The City paid for the remaining “public benefit” portion of governmental activities with approximately \$5,072,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2007	2006
Receipts and transfers		
Program receipts		
Charges for service		
Water	\$ 946,903	967,568
Sewer	1,067,051	1,075,292
Other non major	77,760	81,326
Operating grants, contributions and restricted interest	103,227	108,371
General receipts		
Unrestricted interest on investment	100,398	63,940
Other general receipts	1,061	-
Total receipts	<u>2,296,400</u>	<u>2,296,497</u>
Disbursements		
Water	1,072,914	862,423
Sewer	1,091,458	950,108
Other non major	77,979	68,472
Transfers	(4,024)	20,892
Total disbursements and transfers	<u>2,238,327</u>	<u>1,901,895</u>
Increase in cash balance	58,073	394,602
Cash basis net assets beginning of year	<u>2,139,947</u>	<u>1,745,345</u>
Cash basis net assets end of year	<u>\$ 2,198,020</u>	<u>2,139,947</u>

Total business type activities receipts for the fiscal year were \$2,296,400 compared to \$2,296,497 last year. Total disbursements and transfers for the fiscal year increased by 18% or a total of \$336,432.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Norwalk, Iowa completed the year, its governmental funds reported a combined fund balance of \$5,271,103, an increase of more than \$602,000 above last year's total of \$4,668,847. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$78,187 from the prior year to \$794,120. The decrease was due primarily to fees for the cable franchise tax and DARE officer not being collected until fiscal year 2008.

The Road Use Tax Fund cash balance increased by \$44,251 to \$224,172 during the fiscal year. The increase was primarily attributable to capital improvements not being completed during fiscal year 2007.

The Urban Renewal Tax Increment Fund cash balance was \$802,715, a decrease of \$117,837 from the previous year.

The Economic Development Fund cash balance was \$669,938, a increase of \$11,299 from the previous year.

The Debt Service Fund cash balance was \$66,267, an increase of \$7,418 from the previous year.

The Fire Station capital project fund was established to account for construction of a fire station within the City's business district. By the end of the fiscal year, construction was completed and the fund was closed.

The Street Construction capital project fund was established to account for street construction. At the end of the fiscal year, the cash balance was \$1,694,633. The balance was the result of receiving general obligation bond proceeds in anticipation of project costs.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Water Fund cash balance decreased by \$6,006 to \$959,435.

The Sewer Fund cash balance increased by \$36,510 to \$849,693.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 24, 2007 and resulted in a net increase of \$2,229,188 in revenues. The increase was due primarily to an issuance of bonds. Budgeted expenditures increased \$1,473,763 due to the purchases of a police car, a sewer jet truck, a radio read metering system and completion of the construction of the fire station.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$14,200,894 in bonds and other long-term debt, compared to \$13,427,364 last year, as show below.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation bonds	\$ 8,775,000	7,515,000
General obligation capital loan notes	1,005,000	1,235,000
Revenue bonds	3,278,000	3,494,000
Sanitary district mortgage assumed	212,189	222,051
Colonial Meadows economic development payments	838,990	883,753
Equipment loans	91,715	77,560
Total	<u>\$ 14,200,894</u>	<u>13,427,364</u>

Debt increased as a result of issuing general obligation bonds to pay the cost of street improvements, park improvements, and the equipment purchases.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$9,780,000 is significantly below its constitutional debt limit of \$19 million.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

CITY OF NORWALK

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Norwalk, Iowa's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to budget constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Mark Miller, City Administrator, 705 North Avenue, Norwalk, Iowa.

BASIC FINANCIAL STATEMENTS

CITY OF NORWALK

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

	<u>Disbursements</u>	<u>Program</u> Charges for Service
Functions / Programs		
Governmental activities		
Public safety	\$ 1,321,635	105,001
Public works	1,103,075	385,256
Health and social services	3,150	-
Culture and recreation	764,784	210,941
Community and economic development	131,511	7,551
General government	479,607	144,032
Debt service	1,394,554	-
Capital projects	1,616,705	-
Total governmental activities	<u>6,815,021</u>	<u>852,781</u>
Business type activities		
Water	1,072,914	946,903
Sewer	1,091,458	1,067,051
Solid waste	-	-
Other non major	77,979	77,760
Total business type activities	<u>2,242,351</u>	<u>2,091,714</u>
Total	<u>\$ 9,057,372</u>	<u>2,944,495</u>
General Receipts		
Property tax levied for		
General purposes		
Tax increment financing		
Debt service		
Employee benefits		
Emergency levy		
Utility tax replacement excise tax		
Grants and contributions not restricted to specific purpose		
Unrestricted interest on investments		
Bond proceeds		
Miscellaneous		
Sale of assets		
Transfers		
Total general receipts and transfers		

Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
85,543	2,561	(1,128,530)	-	(1,128,530)
642,211	-	(75,608)	-	(75,608)
-	-	(3,150)	-	(3,150)
82,101	-	(471,742)	-	(471,742)
25,718	-	(98,242)	-	(98,242)
2,729	-	(332,846)	-	(332,846)
-	-	(1,394,554)	-	(1,394,554)
-	50,000	(1,566,705)	-	(1,566,705)
<u>838,302</u>	<u>52,561</u>	<u>(5,071,377)</u>	<u>-</u>	<u>(5,071,377)</u>
88,804	-	-	(37,207)	(37,207)
13,616	-	-	(10,791)	(10,791)
-	-	-	-	-
807	-	-	588	588
<u>103,227</u>	<u>-</u>	<u>-</u>	<u>(47,410)</u>	<u>(47,410)</u>
<u>941,529</u>	<u>52,561</u>	<u>(5,071,377)</u>	<u>(47,410)</u>	<u>(5,118,787)</u>
		1,332,979	-	1,332,979
		916,408	-	916,408
		536,068	-	536,068
		446,615	-	446,615
		44,146	-	44,146
		263,049	-	263,049
		47,493	-	47,493
		184,308	100,398	284,706
		1,976,106	-	1,976,106
		9,737	-	9,737
		1,658	1,061	2,719
		(4,024)	4,024	-
		<u>5,754,543</u>	<u>105,483</u>	<u>5,860,026</u>

CITY OF NORWALK

Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2007

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

 Restricted

 Streets

 Urban renewal purposes

 Economic development

 Debt service

 Other purposes

 Unrestricted

 Total cash basis net assets

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
683,166	58,073	741,239
<u>4,973,233</u>	<u>2,139,947</u>	<u>7,113,180</u>
<u><u>5,656,399</u></u>	<u><u>2,198,020</u></u>	<u><u>7,854,419</u></u>
224,172	-	224,172
802,715	-	802,715
669,938	-	669,938
66,267	401,908	468,175
2,713,891	-	2,713,891
<u>1,179,416</u>	<u>1,796,112</u>	<u>2,975,528</u>
<u><u>5,656,399</u></u>	<u><u>2,198,020</u></u>	<u><u>7,854,419</u></u>

CITY OF NORWALK

Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

		Special	
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts			
Property tax	\$ 1,332,979	-	-
Tax increment financing collections	-	-	916,408
Other city tax	153,065	-	-
Licenses and permits	143,389	-	-
Use of money and property	86,905	-	41,241
Intergovernmental	83,544	634,629	-
Charges for service	588,138	-	-
Miscellaneous	134,935	-	-
Total receipts	<u>2,522,955</u>	<u>634,629</u>	<u>957,649</u>
Disbursements			
Operating			
Public safety	1,065,431	-	-
Public works	469,285	579,813	-
Health and social services	3,150	-	-
Culture and recreation	664,496	-	-
Community and economic development	69,940	-	2,500
General government	432,090	-	-
Debt service	-	-	110,567
Capital projects	-	-	-
Total disbursements	<u>2,704,392</u>	<u>579,813</u>	<u>113,067</u>
Excess of receipts over disbursements	<u>(181,437)</u>	<u>54,816</u>	<u>844,582</u>
Other financing sources (uses)			
Bond proceeds	34,000	-	-
Sale of capital assets	-	-	-
Operating transfers in (out)	69,250	(10,565)	(726,745)
Total other financing sources (uses)	<u>103,250</u>	<u>(10,565)</u>	<u>(726,745)</u>

<u>Revenue</u>		<u>Capital Projects</u>		<u>Other</u>	
<u>Economic</u>	<u>Debt</u>	<u>Fire</u>	<u>Street</u>	<u>Nonmajor</u>	
<u>Development</u>	<u>Service</u>	<u>Station</u>	<u>Construction</u>	<u>Governmental</u>	<u>Total</u>
				<u>Funds</u>	
-	536,068	-	-	490,761	2,359,808
-	-	-	-	-	916,408
-	53,351	-	-	56,633	263,049
-	-	-	-	-	143,389
28,531	8,417	18,200	4,244	31,674	219,212
-	-	-	-	50,000	768,173
-	-	-	-	-	588,138
21,639	-	-	-	30,444	187,018
<u>50,170</u>	<u>597,836</u>	<u>18,200</u>	<u>4,244</u>	<u>659,512</u>	<u>5,445,195</u>
-	-	-	-	256,204	1,321,635
-	-	-	-	53,977	1,103,075
-	-	-	-	-	3,150
-	-	-	-	100,288	764,784
48,871	-	-	-	10,200	131,511
-	-	-	-	47,517	479,607
-	1,283,987	-	-	-	1,394,554
-	-	1,484,258	32,317	100,130	1,616,705
<u>48,871</u>	<u>1,283,987</u>	<u>1,484,258</u>	<u>32,317</u>	<u>568,316</u>	<u>6,815,021</u>
<u>1,299</u>	<u>(686,151)</u>	<u>(1,466,058)</u>	<u>(28,073)</u>	<u>91,196</u>	<u>(1,369,826)</u>
-	-	-	1,722,706	219,400	1,976,106
-	-	-	-	-	-
-	693,569	9,450	-	(38,983)	(4,024)
<u>-</u>	<u>693,569</u>	<u>9,450</u>	<u>1,722,706</u>	<u>180,417</u>	<u>1,972,082</u>

CITY OF NORWALK

Statement of Cash Receipts, Disbursements
 And Changes in Cash Balances
 Governmental Funds
 As of and for the year ended June 30, 2007

	General	Road Use Tax	Special Urban Renewal Tax Increment
Net change in cash balances	(78,187)	44,251	117,837
Cash balances beginning of year	872,307	179,921	684,878
Cash balances end of year	\$ 794,120	224,172	802,715
Cash Basis Fund Balances			
Reserved			
Debt service	\$ -	-	-
Unreserved			
General fund	794,120	-	-
Special revenue funds	-	224,172	802,715
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 794,120	224,172	802,715

See notes to financial statements.

<u>Revenue</u>	<u>Capital Projects</u>			<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Economic Development</u>	<u>Debt Service</u>	<u>Fire Station</u>	<u>Street Construction</u>		
1,299	7,418	(1,456,608)	1,694,633	271,613	602,256
<u>668,639</u>	<u>58,849</u>	<u>1,456,608</u>	<u>-</u>	<u>747,645</u>	<u>4,668,847</u>
<u><u>669,938</u></u>	<u><u>66,267</u></u>	<u><u>-</u></u>	<u><u>1,694,633</u></u>	<u><u>1,019,258</u></u>	<u><u>5,271,103</u></u>
-	66,267	-	-	-	66,267
-	-	-	-	-	794,120
669,938	-	-	-	310,752	2,007,577
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,694,633</u>	<u>708,506</u>	<u>2,403,139</u>
<u><u>669,938</u></u>	<u><u>66,267</u></u>	<u><u>-</u></u>	<u><u>1,694,633</u></u>	<u><u>1,019,258</u></u>	<u><u>5,271,103</u></u>

CITY OF NORWALK

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash
Balances to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2007

Total government funds cash balances	\$ 5,271,103
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of major equipment replacement and self funding of a future additional payroll period to individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

385,296

Cash basis net assets of governmental activities	<u>\$ 5,656,399</u>
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Net change in cash balances	\$ 602,256
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of major equipment replacement and future payroll costs to individual funds. The change in net assets of the Internal Service Funds are reported with governmental activities.

80,910

Change in cash balance of governmental activities	<u>\$ 683,166</u>
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See notes to financial statements.

CITY OF NORWALK

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Proprietary Funds
As of and for the year ended June 30, 2007

	<u>Enterprise</u>	
	<u>Water</u>	<u>Sewer</u>
Operating receipts		
Use of money and property	\$ 45,034	39,750
Charges for service	932,177	1,057,180
Miscellaneous	<u>88,804</u>	<u>13,616</u>
Total operating receipts	<u>1,066,015</u>	<u>1,110,546</u>
Operating disbursements		
Governmental activities		
Public works	-	-
Culture and recreation	-	-
General government	-	-
Business type activities	<u>1,072,914</u>	<u>1,079,167</u>
Total operating disbursements	<u>1,072,914</u>	<u>1,079,167</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(6,899)</u>	<u>31,379</u>
Other financing sources (uses)		
Sale of capital assets	-	-
Operating transfers out	<u>893</u>	<u>5,131</u>
Total other financing sources (uses)	<u>893</u>	<u>5,131</u>
Net change in cash balances	(6,006)	36,510
Cash balances beginning of year	<u>965,441</u>	<u>813,183</u>
Cash balances end of year	<u>\$ 959,435</u>	<u>849,693</u>
Cash Basis Fund Balances		
Reserved for debt service	\$ 94,386	307,522
Unreserved	<u>865,049</u>	<u>542,171</u>
Total cash basis fund balances	<u>\$ 959,435</u>	<u>849,693</u>

See notes to financial statements.

Funds		Internal Service Funds
Other Nonmajor Storm Water	Total	Other Nonmajor Internal Service Funds
6,823	91,607	23,525
77,760	2,067,117	-
807	103,227	89,115
<u>85,390</u>	<u>2,261,951</u>	<u>112,640</u>
-	-	-
-	-	-
-	-	-
77,979	2,230,060	12,291
<u>77,979</u>	<u>2,230,060</u>	<u>12,291</u>
7,411	31,891	100,349
-	-	2,719
(2,000)	4,024	-
<u>(2,000)</u>	<u>4,024</u>	<u>-</u>
5,411	35,915	100,349
152,669	1,931,293	513,040
<u>158,080</u>	<u>1,967,208</u>	<u>613,389</u>
-	401,908	-
<u>158,080</u>	<u>1,565,300</u>	<u>616,108</u>
<u>158,080</u>	<u>1,967,208</u>	<u>616,108</u>

CITY OF NORWALK

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash
Balances to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2007

Total enterprise funds cash balances	\$ 1,967,208
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Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of major equipment replacement and self funding of a future additional payroll period to individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

230,812

Cash basis net assets of business type activities	\$ <u>2,198,020</u>
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Net change in cash balances	\$ 35,915
-----------------------------	-----------

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of major equipment replacement and future payroll costs to individual funds. The change in net assets of the Internal Service Funds are reported with business type activities.

22,158

Change in cash balance of business type activities	\$ <u>58,073</u>
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See notes to financial statements.

CITY OF NORWALK

Notes to Financial Statements June 30, 2007

1. Summary of Significant Accounting Policies

The City of Norwalk is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1856 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Norwalk has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Norwalk has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the city but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Warren County Assessor's Conference Board, Warren County Emergency Management Commission, Marion/Warren County Drug Task Force, Metropolitan Area Solid Waste Agency and Des Moines Area Metropolitan Planning Organization.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise fund are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Special Revenue (Continued)

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Economic Development Fund is used to account for contributions from businesses and citizens restricted for economic development activities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Funds are used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies.

C. Measurement Focus and Basis of Accounting

The City of Norwalk maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with the generally accepted accounting principles of the United States of America.

CITY OF NORWALK

Notes to Financial Statements - Continued June 30, 2007

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2. Cash and Pooled Investments

The City's deposits at June 30, 2007 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments subject to interest rate risk or credit risk at June 30, 2007.

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

3. Bonds Payable

Annual debt service requirements to maturity for general obligation and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds and Capital Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 1,005,000	403,767	224,000	130,154	1,229,000	533,921
2009	1,040,000	363,792	235,000	121,082	1,275,000	484,874
2010	935,000	324,995	242,000	111,699	1,177,000	436,694
2011	980,000	286,125	255,000	101,889	1,235,000	388,014
2012	1,035,000	244,795	264,000	91,482	1,299,000	336,277
2013	635,000	200,425	278,000	80,672	913,000	281,097
2014	665,000	174,482	286,000	69,211	951,000	243,693
2015	630,000	146,695	238,000	57,405	868,000	204,100
2016	555,000	120,463	249,000	48,156	804,000	168,619
2017	580,000	96,695	258,000	38,481	838,000	135,176
2018	605,000	71,502	270,000	28,448	875,000	99,950
2019	400,000	45,008	278,000	17,951	678,000	62,959
2020	420,000	28,897	169,000	7,135	589,000	36,032
2021	145,000	11,948	16,000	960	161,000	12,908
2022	150,000	6,075	16,000	480	166,000	6,555
Total	<u>\$ 9,780,000</u>	<u>2,525,664</u>	<u>3,278,000</u>	<u>905,205</u>	<u>13,058,000</u>	<u>3,430,869</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The entire income and revenue of the water and sewer systems shall be deposited as collected in the Water Revenue and Sewer Revenue Funds respectively.
- (c) Sufficient transfers shall then be made to the Water Bond and Sewer Revenue Sinking funds for the purpose of making the bond principal and interest payments when due.

CITY OF NORWALK

Notes to Financial Statements - Continued

June 30, 2007

3. Bonds Payable (Continued)

- (d) Sufficient monthly transfers equal to 25% of the transfers to the Water Bond Fund shall be made to the Water Reserve Fund until an amount equal to the maximum amount of principal and interest due on the bonds in any succeeding fiscal year is accumulated. \$60,000 from the proceeds of the sewer revenue bonds shall be deposited to and maintained in a Sewer Reserve fund. Money in the Water and Sewer Reserve Funds shall be used solely for the purpose of paying principal at maturity of or interest on the bonds when insufficient money is available in the Water Bond and Sewer Revenue Sinking Funds.
- (e) Money in the Water and Sewer Revenue Funds shall next be disbursed to maintain Water and Sewer Improvement Funds. The Water Revenue Fund shall make sufficient monthly transfers to bring the Water Improvement Fund to \$30,000. The Sewer Revenue Fund shall make minimum monthly transfers of \$1,600 until a minimum balance of \$60,000 has been accumulated. Money in the Improvement Funds shall be used solely for the purpose of paying principal of or interest on the bonds when there is insufficient money in the Bond or Reserve Funds; and to the extent not required for the foregoing, to pay the cost of extraordinary maintenance or repairs, renewals and replacements, payment of rentals on any part of the system and for capital improvements.

In June 2005 the City issued \$2,500,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of aiding in the planning, undertaking and carrying out of urban renewal project, consisting of constructing, equipping and furnishing a fire station, an essential corporate purpose.

In November 2005 the City issued \$670,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of aiding in the planning, undertaking and carrying out of urban renewal project, consisting of constructing, equipping and furnishing a fire station, an essential corporate purpose.

In April 2006 the City issued \$700,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of constructing street and park improvements, and to acquire equipment.

In May 2007 the City issued \$1,950,000 of General Obligation Bonds. The proceeds from the bonds were used to pay costs of constructing street improvements, and to acquire equipment.

CITY OF NORWALK

Notes to Financial Statements - Continued June 30, 2007

4. Sanitary District Mortgage

In conjunction with the merger in July 1997 of the Lakewood Benefited Water District (“Water District”) and the Lakewood Benefited Sanitary District (“Sanitary District”) with the City, the City assumed a mortgage payable which was incurred by the Sanitary District during the construction of utility appurtenances and fixtures. The mortgage is payable in annual installments of \$21,458 including interest at 5% per annum through February 2021.

5. Economic Development Payments

In conjunction with a preannexation agreement with the owners of certain property subsequently annexed into the City, the City agreed to make economic development payments sufficient to amortize the \$756,500 cost of owner improvements plus interest for 60 months at 4.99% per annum over the remaining life of the applicable tax increment financing (“TIF”) area. The economic development payments are not general obligations of the City and are payable only from 80% of the incremental property taxes attributable to the nonresidential portions of the TIF area. Payments by the City are applied first to interest and then to principal. The City expects to make semiannual payments of \$44,383 including interest at 4.99% per annum from December 1, 2005 through June 1, 2020.

6. Commitments/Long-Term Obligations

The Board of Water Works Trustees of the City of Des Moines, Iowa (“Water Board”) manages the water works system serving the City of Des Moines and other cities, utility boards and water districts (“Participants”) in the surrounding area. The Water Board determined it was necessary to construct a second treatment plant in order to commit to sell capacities desired by the Participants. In connection with construction of the treatment plant, each Participant, including the City of Norwalk, executed a purchased capacity master agreement agreeing to pay a specified price per gallon of daily capacity. Payment of the purchase price may be made by participation in a bonding program whereby water revenue bonds of the City of Des Moines were issued to finance the purchased capacity payments of the Participants. Such Participants pay a monthly bond charge proportionate to their share of the total purchased capacity sufficient to fund payments into a sinking fund for interest and principal next due and any required payments into a reserve fund.

A schedule of the City’s portion of future principal and interest payments for the revenue bonds is as follows:

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

6. Commitments/Long-Term Obligations (Continued)

Year ending June 30,	Des Moines Water Works Water Revenue Bonds		
	Principal	Interest	Total
2008	\$ 105,000	78,842	183,842
2009	110,000	73,145	183,145
2010	115,000	67,183	182,183
2011	125,000	60,822	185,822
2012	130,000	54,000	184,000
Thereafter	935,000	159,165	1,094,165
Total	\$ 1,520,000	493,157	2,013,157

During the year ended June 30, 2007, the City paid \$184,275 for principal and interest pursuant to this agreement.

7. Joint Venture and Commitments

Warren County is a member of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), a joint venture established in accordance with the provisions of Chapter 28E of the Code of Iowa for the purpose of providing primary and secondary treatment of sewer flows for the participating communities. Through a separate Chapter 28E agreement the City of Norwalk has assumed a portion of Warren County's rights and obligations related to the WRA. The Amended and Restated Agreement for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

CITY OF NORWALK

Notes to Financial Statements - Continued June 30, 2007

7. Joint Venture and Commitments (Continued)

The City the Norwalk retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from the WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A and 2004B include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities.

The WRA Agreement requires the debt service on Series 2004A bonds to be allocated using the annual flow allocation to the participating communities based on the existing allocations of debt service under the prior I.C.A. agreement. The series 2004A bonds had a balance of \$20,030,000 as of June 30, 2006. The City of Norwalk has a commitment for approximately \$212,318, or 1.06%, for future principal payment requirements on that debt. The WRA Sewer Revenue Bonds Series 2004B bonds were issued for capital expansion. The WRA Agreement requires the debt service on these bonds to be allocated to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of the June 30, 2006, the Series 2004B bonds had a balance of \$66,830,000 and the City of Norwalk's estimated future allocation based on the WRA flows is currently \$2,165,292, or 3.24%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2006, the WRA had \$12,824,000 in outstanding State Revolving Loans, of which \$78,940 of future principal debt service is a commitment of the City of Norwalk.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Since there is no specific and measurable equity interest in the WRA Agreement, an investment in the joint venture will not be reported by the City. The city retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346.

CITY OF NORWALK

Notes to Financial Statements - Continued June 30, 2007

8. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$124,217, \$112,262, and \$109,673 respectively, equal to the required contributions for each year.

9. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. Sick leave hours are accumulated for subsequent use but not for payment. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, was \$97,5, computed based on rates of pay as of June 30, 2007.

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

10. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Road Use Tax	\$ 10,565
	Employee benefits levy	42,220
	Enterprise:	
	Water	13,198
	Sewer	11,793
	Storm Water	2,000
		<u>79,776</u>
Special Revenue:		
Urban Renewal Tax Increment	Capital Project:	
	Sports Complex	7,289
Park Trust	General	<u>10,526</u>
Capital Project:		
Fire Station	Special Revenue:	
	Urban Renewal Tax Increment	<u>9,450</u>
Sports Complex	Capital Project:	
	Legacy/TIF	<u>473</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	<u>693,569</u>
Enterprise:		
Water	Special Revenue:	
	Urban Renewal Tax Increment	<u>14,091</u>
Sewer	Special Revenue:	
	Urban Renewal Tax Increment	<u>16,924</u>
		<u>\$ 832,098</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

CITY OF NORWALK

Notes to Financial Statements - Continued June 30, 2007

11. Jointly Governed Organizations

The City is a member of the Iowa Municipalities Workers' Compensation Association (the "Association"). The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdiction. The City has executed a Worker's Compensation coverage Agreement with the Association, which extends through June 30, 2007 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2007, the City paid workers' compensation insurance premiums of \$59,175 to the Association.

Also, the City is a member of the Des Moines Metropolitan Solid Waste Agency (the "Agency"). The Agency is governed by a board of directors consisting of representatives of the governing bodies of each participating governmental jurisdiction. The City had no transactions during the year with the Agency.

In addition, the City is a member of the Des Moines Area Metropolitan Planning Organization (the "Organization"). The Organization is governed by a board of directors consisting of representatives of the governing bodies of each participating governmental jurisdiction. The City's transactions during the year with the Organization were limited to payment of per capita fees of \$4,130.

12. Revenue Bonds

The City has issued a total of \$10,000,000 of revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$10,000,000 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the operations of the facilities constructed, and the bond principal and interest do not constitute liabilities of the City.

13. Risk Management

The City of Norwalk is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF NORWALK

Notes to Financial Statements - Continued
June 30, 2007

14. Construction and Other Commitments

The City has entered into a contract totaling \$70,000 for street improvement engineering. At June 30, 2007, \$32,217 of the contract was completed. The remaining amount of the contract will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NORWALK

Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances – Budget and Actual (Cash Basis) -
All Governmental Funds and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
	<u>Actual</u>	<u>Actual</u>
Receipts		
Property tax	\$ 2,359,808	-
Tax increment financing collections	916,408	-
Other city tax	263,049	-
Licenses and permits	143,389	-
Use of money and property	219,212	91,607
Intergovernmental	768,173	-
Charges for service	588,138	2,067,117
Miscellaneous	<u>187,018</u>	<u>103,227</u>
Total receipts	<u>5,445,195</u>	<u>2,261,951</u>
Disbursements		
Public safety	1,321,635	-
Public works	1,103,075	-
Health and social services	3,150	-
Culture and recreation	764,784	-
Community and economic development	131,511	-
General government	479,607	-
Debt service	1,394,554	-
Capital projects	1,616,705	-
Business type activities	<u>-</u>	<u>2,230,060</u>
Total disbursements	<u>6,815,021</u>	<u>2,230,060</u>
Excess of receipts over disbursements	(1,369,826)	31,891
Other financing sources, net	<u>1,972,082</u>	<u>4,024</u>
Excess of receipts and other financing sources over disbursements and other financing uses	602,256	35,915
Balances beginning of year	<u>4,668,847</u>	<u>1,931,293</u>
Balances end of year	<u>\$ 5,271,103</u>	<u>1,967,208</u>

Less Funds not Required to to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
		Original	Final	
-	2,359,808	2,392,563	2,392,563	(32,755)
-	916,408	930,000	930,000	(13,592)
-	263,049	265,491	264,070	(1,021)
-	143,389	162,530	162,830	(19,441)
-	310,819	139,155	282,247	28,572
-	768,173	644,483	705,665	62,508
-	2,655,255	2,744,600	2,723,734	(68,479)
-	290,245	284,500	330,932	(40,687)
-	<u>7,707,146</u>	<u>7,563,322</u>	<u>7,792,041</u>	<u>(84,895)</u>
-	1,321,635	1,336,222	1,438,967	117,332
-	1,103,075	1,058,349	1,130,628	27,553
-	3,150	3,150	3,150	-
-	764,784	756,344	816,054	51,270
-	131,511	154,215	152,269	20,758
-	479,607	543,064	534,569	54,962
-	1,394,554	1,394,079	1,394,557	3
-	1,616,705	640,000	1,698,701	81,996
-	2,230,060	2,158,223	2,348,514	118,454
-	<u>9,045,081</u>	<u>8,043,646</u>	<u>9,517,409</u>	<u>472,328</u>
-	(1,337,935)	(480,324)	(1,725,368)	(557,223)
-	<u>1,976,106</u>	-	<u>1,954,483</u>	<u>(21,623)</u>
-	638,171	(480,324)	229,115	(578,846)
-	<u>6,600,140</u>	<u>5,519,458</u>	<u>7,113,181</u>	<u>513,041</u>
-	<u>7,238,311</u>	<u>5,039,134</u>	<u>7,342,296</u>	<u>(65,805)</u>

CITY OF NORWALK

Notes to Required Supplementary Information – Budgetary Reporting June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,473,763. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NORWALK

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2007

	Special	
	Employee Benefits Levy	Plumbers Bonds
Receipts		
Property tax	\$ 490,761	-
Other city tax	56,633	-
Use of money and property	3,214	305
Intergovernmental	-	-
Miscellaneous	6,405	200
Total receipts	<u>557,013</u>	<u>505</u>
Disbursements		
Operating		
Public safety	256,204	-
Public works	53,977	-
Culture and recreation	74,457	-
Community and economic development	10,200	-
General government	47,517	-
Capital projects	-	-
Total disbursements	<u>442,355</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>114,658</u>	<u>505</u>
Other financing uses		
Bond proceeds	-	-
Operating transfers in (out)	(42,220)	-
Total other financing sources (uses)	<u>(42,220)</u>	<u>-</u>
Net change in cash balances	72,438	505
Cash balances beginning of year	54,526	7,047
Cash balances end of year	<u>\$ 126,964</u>	<u>7,552</u>
Cash Basis Fund Balances		
Unreserved		
Special revenue funds	\$ 126,964	7,552
Capital project fund	-	-
Total cash basis fund balances	<u>\$ 126,964</u>	<u>7,552</u>

See accompanying independent auditors' report.

Revenue

<u>Library Trust</u>	<u>Park Trust</u>	<u>Keep Norwalk Beautiful</u>	<u>Legacy Pedestrian Path</u>	<u>Orchard Ridge Pedestrian Path</u>	<u>Legacy/TIF</u>
-	-	-	-	-	-
-	-	-	-	-	-
1,257	5,253	232	181	44	3
-	-	-	-	-	-
<u>13,557</u>	<u>6,203</u>	<u>4,079</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>14,814</u>	<u>11,456</u>	<u>4,311</u>	<u>181</u>	<u>44</u>	<u>3</u>
-	-	-	-	-	-
-	-	-	-	-	-
8,517	17,314	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>8,517</u>	<u>17,314</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>6,297</u>	<u>(5,858)</u>	<u>4,311</u>	<u>181</u>	<u>44</u>	<u>3</u>
-	-	-	-	-	-
<u>-</u>	<u>10,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(473)</u>
<u>-</u>	<u>10,526</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(473)</u>
6,297	4,668	4,311	181	44	(470)
<u>29,098</u>	<u>123,698</u>	<u>2,714</u>	<u>4,203</u>	<u>1,022</u>	<u>470</u>
<u>35,395</u>	<u>128,366</u>	<u>7,025</u>	<u>4,384</u>	<u>1,066</u>	<u>-</u>
35,395	128,366	7,025	4,384	1,066	-
-	-	-	-	-	-
<u>35,395</u>	<u>128,366</u>	<u>7,025</u>	<u>4,384</u>	<u>1,066</u>	<u>-</u>

Capital Projects					
Public Safety	Hakes Wright Road	Legacy Park	Water Tower Park	Sports Complex	Total
-	-	-	-	-	490,761
-	-	-	-	-	56,633
549	9,783	9,514	1,087	252	31,674
-	-	-	-	50,000	50,000
-	-	-	-	-	30,444
<u>549</u>	<u>9,783</u>	<u>9,514</u>	<u>1,087</u>	<u>50,252</u>	<u>659,512</u>
-	-	-	-	-	256,204
-	-	-	-	-	53,977
-	-	-	-	-	100,288
-	-	-	-	-	10,200
-	-	-	-	-	47,517
-	-	-	-	100,130	100,130
-	-	-	-	100,130	568,316
<u>549</u>	<u>9,783</u>	<u>9,514</u>	<u>1,087</u>	<u>(49,878)</u>	<u>91,196</u>
219,400	-	-	-	-	219,400
-	-	-	-	(6,816)	(38,983)
<u>219,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,816)</u>	<u>180,417</u>
219,949	9,783	9,514	1,087	(56,694)	271,613
-	226,535	216,467	25,171	56,694	747,645
<u>219,949</u>	<u>236,318</u>	<u>225,981</u>	<u>26,258</u>	<u>-</u>	<u>1,019,258</u>
-	-	-	-	-	310,752
<u>219,949</u>	<u>236,318</u>	<u>225,981</u>	<u>26,258</u>	<u>-</u>	<u>708,506</u>
<u>219,949</u>	<u>236,318</u>	<u>225,981</u>	<u>26,258</u>	<u>-</u>	<u>1,019,258</u>

CITY OF NORWALK

Schedule 2

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds
As of and for the year ended June 30, 2007

	Internal Service		
	Equipment Replacement	27th Pay Period	Total
Receipts			
Use of money and property	\$ 21,391	2,134	23,525
Miscellaneous	<u>81,338</u>	<u>7,777</u>	<u>89,115</u>
Total receipts	<u>102,729</u>	<u>9,911</u>	<u>112,640</u>
Disbursements			
Operating			
Public works	-	-	-
Culture and recreation	-	-	-
General government	-	-	-
Business type activities	<u>12,291</u>	<u>-</u>	<u>12,291</u>
Total disbursements	<u>12,291</u>	<u>-</u>	<u>12,291</u>
Excess (deficiency) of receipts over (under) disbursements	<u>90,438</u>	<u>9,911</u>	<u>100,349</u>
Other financing sources			
Sale of capital assets	<u>2,719</u>	<u>-</u>	<u>2,719</u>
Net change in cash balances	93,157	9,911	103,068
Cash balances beginning of year	<u>463,634</u>	<u>49,406</u>	<u>513,040</u>
Cash balances end of year	<u>\$ 556,791</u>	<u>59,317</u>	<u>616,108</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ 556,791</u>	<u>59,317</u>	<u>616,108</u>

See accompanying independent auditors' report.

CITY OF NORWALK

Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose	April 1, 1998	4.30-5.05	\$ 1,220,000
Corporate purpose	Jan 1, 2001	4.85-5.10	1,950,000
Urban renewal corporate purpose	Feb 1, 2004	1.40-3.80	900,000
Corporate purpose	Apr 1, 2004	1.40-2.50	465,000
Urban renewal fire station	Jun 30, 2005	3.50-4.00	2,500,000
Urban renewal fire station	Nov 3, 2005	3.70-4.25	670,000
Corporate purpose	Apr 20, 2006	3.60-3.85	700,000
Corporate purpose	May 15, 2007	3.75-4.05	1,950,000
Total			
General obligation street improvement			
capital loan notes	Dec 1, 1999	4.60-5.40	665,000
General obligation corporate purpose notes	Aug 1, 2001	3.80-4.90	595,000
General obligation refunding notes	Mar 29, 2005	2.30-2.80	515,000
Total			
Revenue bonds:			
Sewer	Feb 1, 1999	4.15-5.15	620,000
Sewer	June 18, 1999	4.23	660,463
Sewer	June 18, 1999	4.23	939,537
Water	Feb 7, 2000	3.53	1,175,000
Sewer	Feb 10, 2000	3.92	1,053,000
Sewer	Jan 17, 2002	3.00	250,000
Total			
Sanitary district mortgage assumed	July 1, 1997	5.00	361,900
Colonial Meadows economic			
development payments	April 8, 1999	4.99	926,341
Equipment loan	Aug 13, 2003	4.00	24,802
Equipment loan	Feb 9, 2005	5.50	49,000
Equipment loan	Jul 15, 2005	5.75	25,575
Equipment Loan	Oct 9, 2006	6.38	34,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 925,000	-	110,000	815,000	45,245
1,835,000	-	60,000	1,775,000	91,332
760,000	-	75,000	685,000	22,698
265,000	-	90,000	175,000	5,915
2,380,000	-	135,000	2,245,000	88,620
650,000	-	35,000	615,000	25,688
700,000	-	185,000	515,000	28,944
-	1,950,000	-	1,950,000	-
<u>7,515,000</u>	<u>1,950,000</u>	<u>690,000</u>	<u>8,775,000</u>	<u>308,442</u>
410,000	-	60,000	350,000	21,392
430,000	-	45,000	385,000	19,670
395,000	-	125,000	270,000	10,483
<u>1,235,000</u>	<u>-</u>	<u>230,000</u>	<u>1,005,000</u>	<u>51,545</u>
380,000	-	40,000	340,000	18,522
488,000	-	29,000	459,000	20,642
696,000	-	41,000	655,000	29,441
903,000	-	51,000	852,000	31,876
816,000	-	45,000	771,000	31,988
211,000	-	10,000	201,000	6,330
<u>3,494,000</u>	<u>-</u>	<u>216,000</u>	<u>3,278,000</u>	<u>138,799</u>
222,051	-	11,125	210,926	10,333
883,753	-	44,763	838,990	44,003
12,868	-	6,323	6,545	510
39,117	-	9,003	30,114	2,157
25,575	-	4,519	21,056	1,527
-	34,000	-	34,000	-
<u>\$ 13,427,364</u>	<u>1,984,000</u>	<u>1,211,733</u>	<u>14,199,631</u>	<u>557,316</u>

CITY OF NORWALK

Bond and Note Maturities
June 30, 2007

GENERAL OBLIGATION CAPITAL LOAN NOTES

Year Ending June 30,	General Obligation Street Improvement Notes		General Obligation Corporate Purpose		General Obligation Refunding Notes	
	Issued Dec 1, 1999		Issued Aug 1, 2001		Issued Mar 29, 2005	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5%	\$ 65,000	4%	\$ 50,000	3%	\$ 135,000
2009	5%	65,000	4%	50,000	3%	135,000
2010	5%	70,000	5%	50,000		-
2011	5%	75,000	5%	55,000		-
2012	5%	75,000	5%	55,000		-
2013		-	5%	60,000		-
2014		-	5%	65,000		-
Total		<u>\$ 350,000</u>		<u>\$ 385,000</u>		<u>\$ 270,000</u>

GENERAL OBLIGATION

Year Ending June 30,	Essential Corporate Purpose		Corporate Purpose		Corporate Purpose	
	Issued April 1, 1998		Issued Jan 1, 2001		Issued Feb 1, 2004	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5%	\$ 130,000	5%	\$ 65,000	2.30%	\$ 75,000
2009	5%	145,000	5%	70,000	2.50%	75,000
2010	5%	160,000	5%	150,000	2.70%	80,000
2011	5%	180,000	5%	150,000	2.90%	85,000
2012	5%	200,000	5%	160,000	3.20%	85,000
2013		-	5%	170,000	3.40%	90,000
2014		-	5%	180,000	3.65%	95,000
2015		-	5%	190,000	3.80%	100,000
2016		-	5%	200,000		-
2017		-	5%	215,000		-
2018		-	5%	225,000		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
Total		<u>\$ 815,000</u>		<u>\$ 1,775,000</u>		<u>\$ 685,000</u>

<u>Total</u>	
\$	250,000
	250,000
	120,000
	130,000
	130,000
	60,000
	65,000
<u>\$</u>	<u>1,005,000</u>

BONDS

<u>Corporate Purpose</u>		<u>Urban Renewal</u>		<u>Urban Renewal</u>		<u>Corporate Purpose</u>		<u>Corporate Purpose</u>		
<u>Issued Apr 1, 2004</u>		<u>Issued Jun 30, 2005</u>		<u>Issued Nov 3, 2005</u>		<u>Issued Apr 20, 2006</u>		<u>Issued May 15, 2007</u>		
Interest		Interest		Interest		Interest		Interest		
<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Total</u>
2.30%	\$ 85,000	3.50%	\$ 135,000	3.70%	\$ 40,000	3.65%	\$ 100,000	3.75%	\$ 125,000	\$ 755,000
2.50%	90,000	3.50%	140,000	3.70%	40,000	3.70%	100,000	3.75%	130,000	790,000
	-	3.50%	145,000	3.80%	40,000	3.75%	100,000	3.75%	140,000	815,000
	-	3.50%	150,000	3.80%	40,000	3.80%	105,000	3.75%	140,000	850,000
	-	3.50%	155,000	3.80%	45,000	3.85%	110,000	3.75%	150,000	905,000
	-	3.60%	165,000	3.80%	45,000	-	-	3.75%	105,000	575,000
	-	3.70%	170,000	3.90%	45,000	-	-	3.80%	110,000	600,000
	-	3.75%	175,000	4.00%	50,000	-	-	3.80%	115,000	630,000
	-	3.85%	185,000	4.05%	50,000	-	-	3.85%	120,000	555,000
	-	3.90%	195,000	4.10%	50,000	-	-	3.90%	120,000	580,000
	-	3.90%	200,000	4.15%	55,000	-	-	3.95%	125,000	605,000
	-	4.00%	210,000	4.20%	55,000	-	-	4.00%	135,000	400,000
	-	4.00%	220,000	4.25%	60,000	-	-	4.00%	140,000	420,000
	-	-	-	-	-	-	-	4.05%	145,000	145,000
	-	-	-	-	-	-	-	4.05%	150,000	150,000
	<u>\$ 175,000</u>		<u>\$ 2,245,000</u>		<u>\$ 615,000</u>		<u>\$ 515,000</u>		<u>\$ 1,950,000</u>	<u>\$ 8,775,000</u>

CITY OF NORWALK

Bond and Note Maturities
June 30, 2007

Year Ending June 30,	REVENUE					
	Sewer		Sewer		Sewer	
	Issued Feb 1, 1999		Issued June 18, 1999		Issued June 18, 1999	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	5%	\$ 40,000	4%	\$ 30,000	4%	\$ 43,000
2009	5%	45,000	4%	31,000	4%	45,000
2010	5%	45,000	4%	33,000	4%	47,000
2011	5%	50,000	4%	34,000	4%	49,000
2012	5%	50,000	4%	36,000	4%	51,000
2013	5%	55,000	4%	37,000	4%	53,000
2014	5%	55,000	4%	39,000	4%	55,000
2015		-	4%	40,000	4%	57,000
2016		-	4%	42,000	4%	60,000
2017		-	4%	44,000	4%	62,000
2018		-	4%	46,000	4%	65,000
2019		-	4%	47,000	4%	68,000
2020		-		-		-
2021		-		-		-
2022		-		-		-
		<u>\$ 340,000</u>		<u>\$ 459,000</u>		<u>\$ 655,000</u>

See accompanying independent auditor's report.

Schedule 4
(Continued)

BONDS

Water		Sewer		Sewer		Total
Issued Feb 7, 2000		Issued Feb 10, 2000		Issued Jan 17, 2002		
Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	
4%	\$ 53,000	4%	\$ 47,000	3%	\$ 11,000	\$ 224,000
4%	55,000	4%	48,000	3%	11,000	235,000
4%	56,000	4%	50,000	3%	11,000	242,000
4%	58,000	4%	52,000	3%	12,000	255,000
4%	61,000	4%	54,000	3%	12,000	264,000
4%	63,000	4%	57,000	3%	13,000	278,000
4%	65,000	4%	59,000	3%	13,000	286,000
4%	67,000	4%	61,000	3%	13,000	238,000
4%	70,000	4%	63,000	3%	14,000	249,000
4%	72,000	4%	66,000	3%	14,000	258,000
4%	75,000	4%	69,000	3%	15,000	270,000
4%	77,000	4%	71,000	3%	15,000	278,000
4%	80,000	4%	74,000	3%	15,000	169,000
	-		-	3%	16,000	16,000
	-		-	3%	16,000	16,000
	<u>\$ 852,000</u>		<u>\$ 771,000</u>		<u>\$ 201,000</u>	<u>\$ 3,278,000</u>

CITY OF NORWALK

Schedule 5

Statement of Receipts By Source
and Disbursements By Function -
All Governmental Funds
For the Last Four Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts				
Property tax	\$ 2,359,808	2,007,156	1,944,684	1,850,777
Tax increment financing collections	916,408	820,782	726,796	602,507
Other city tax	263,049	149,352	91,718	95,051
Licenses and permits	143,389	196,664	187,923	126,368
Use of money and property	219,212	204,357	90,802	90,848
Intergovernmental	768,173	659,954	670,976	623,041
Charges for service	588,138	603,252	224,611	238,900
Miscellaneous	<u>187,018</u>	<u>375,575</u>	<u>375,609</u>	<u>313,365</u>
Total	<u>\$ 5,445,195</u>	<u>5,017,092</u>	<u>4,313,119</u>	<u>3,940,857</u>
Disbursements				
Operating				
Public safety	1,321,635	1,540,593	1,268,424	1,123,028
Public works	1,103,075	1,329,041	602,794	552,582
Health and social services	3,150	3,150	3,150	3,150
Culture and recreation	764,784	734,071	648,403	612,893
Community and economic development	131,511	162,687	162,818	182,897
General government	479,607	454,465	461,738	412,190
Debt service	1,394,554	1,112,312	1,266,009	1,102,064
Capital projects	<u>1,616,705</u>	<u>1,825,243</u>	<u>283,756</u>	<u>762,861</u>
Total	<u>\$ 6,815,021</u>	<u>7,161,562</u>	<u>4,697,092</u>	<u>4,751,665</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Norwalk, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated August 31, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with generally accepted auditing standards of the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Norwalk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Norwalk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Norwalk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Norwalk's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Norwalk's financial statements that is more than inconsequential will not be prevented or detected by the City of Norwalk's internal control. We consider item II-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Norwalk's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Norwalk's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Norwalk's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Norwalk's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Norwalk and other parties to whom the City of Norwalk may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Norwalk during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

August 31, 2007

CITY OF NORWALK

Schedule of Findings and Questioned Costs
Year ended June 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (A) An unqualified opinion was issued on the financial statements, which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the generally accepted accounting principles of the United States of America.
- (B) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) There were no major federal programs.
- (E) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (F) The City of Norwalk did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

II-A-07 Credit Cards - The City has credit cards for use by various employees while on City business. The City has adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. However, \$5,093 of credit card disbursements had no supporting documentation available. An additional \$1,052 had incomplete documentation as to the public purpose of the expenditure. Also, approximately \$8,600 of the expenditures were for items not listed as eligible credit card disbursements according to the credit card policy

Recommendation – The City should review its policies and procedures related to credit card use to ensure that proper documentation of all expenditures of public funds is obtained and that use of the credit card has been properly authorized.

Response – We will do so.

Conclusion – Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, did not exceed the amounts budgeted.

CITY OF NORWALK

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting (continued):

IV-B-07 Questionable Disbursements - Certain disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted. These disbursements totaling \$1,052 are mentioned in Part II: Finding Related to the Financial Statements.

According to the opinion, it is possible for such disbursements to meet the test of serving public purpose under such circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and improper purpose is very thin.

Recommendation – The City should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-07 Business Transactions - No business transactions between the City and City officials or employees were noted.

IV-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

IV-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-07 Revenue Bonds - No violations of provisions of revenue bond resolution requirements were noted.

CITY OF NORWALK

Schedule of Findings and Questioned Costs - Continued
Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting (continued):

IV-H-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.